at any time. With a view to achieve this result we decided to float a small loan on the market.

The Loan.

3. The conditions of the money market have been extremely favourable for some time past. On account of the cheap money policy followed by the Reserve Bank of India, rates of interest have been very low and this coupled with the limited openings in commerce and industry has given a firm tone to the gilt edged market. We thought that advantage should be taken of these conditions to float a loan. It was decided to borrow Rs. 30 lakhs so that after all the obligations in connection with the harbour works have been met the cash balance of the Government will not go below Rs. 45 lakhs. The proposal was to meet our commitments amounting to Rs. 85 lakhs as follows:—

(a)	Loan from the Government of India	37 lakhs
(b)	Loan from the public	30 ,,
(c)	Withdrawal from the cash balance	18 ,,
	Total	85 lakhs

This expenditure of 85 lakhs will be spread over a period of about three years. We propose first to spend the money that we have raised in the market and then to borrow from the Government of India from time to time. In issuing this new loan great care had to be taken with regard to the terms of issue. The Harbour Authority would begin to repay the annual instalments only after 10 years. It was therefore thought necessary to have a loan of the maturity of 20—25 years. With regard to the period of maturity and the rate of interest we carried on negotiations with some leading bankers and brokers. As a result of this discussion it was ultimately decided to issue a loan at par of the maturity of 20—25 years at 3½% interest. To ensure the success of the loan an underwriting commission of 1% was given to the underwriters. These terms were the most advantageous that we could get as a result of the discussion that we had with a few bankers and brokers. This was the first occasion when the Cochin Government came on the open market to raise a loan at the rate of 3½%. Though we felt certain that the financial strength of the Cochin Government would warrant an easy success of such a loan we thought it worth while not to take any risks and hence underwriting arrangements were made. For those who are

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familiar with the floatation of such loans on the money market the arrangements would appear to be eminently reasonable. Even in the London money market an underwriting commission of 2% is very often given to underwriters for loans of this kind. A careful study of the market conditions at the time that we issued the Loan and a comparative study of the yields on the various securities would go to show that the rate of interest offered is very reasonable. Our own 5% loan of 1943-53 is being quoted at Rs. 111 and Rs. 112. This gives a redemption yield of 3.25% calculated at the shortest date for redemption. The earliest date for the redemption of this loan is 1943. Considering the fact that the earliest date for the redemption of our new loan is 1956 the offer of a quarter of a per cent more is necessary. For purposes of comparison with other loans we might take a Government of India loan of approximately the same maturity. The Government of India 4½% loan of 1955-60 may be taken for comparing with our new issue. The dates of redemption are approximately the same. This loan is quoted on the market at Rs. 119—6—0 giving a redemption yield of 3.15%. The yield on our loan is about .35% over this loan of the Government of India. The Mysore State recently floated a loan at 3% free of Mysore and British Indian income-tax. Making allowance for the income-tax deduction it will be found that the yield of our new loan is approximately the same as the yield on the Mysore loan. It is a matter for congratulation that the Cochin Government which is comparatively a newcomer in the money market has been able to raise a loan on terms approximating to the loan raised by a Government like that of Mysore which is so well known in the money market. As a further safeguard for the success of the loan we made it a condition with the underwriters that they should give applications for not less than Rs. 20 lakhs before the loan was actually put on the market. There seems to have been some misconception about this arrangement. It was not at the instance of the underwriters nor at their desire that this arrangement was made. It was a condition which the Government imposed with a view to further safeguard the success of the issue. As a result of this arrangement the amount offered to the public subscription was only Rs. 10 lakhs. As soon as the loan was opened subscriptions were received for Rs. 58,97,000. In making the allotment preferential treatment was given to bona fide Cochin subjects. One other feature of this loan is that the money was made payable in instalments which apart from helping the small investor suited our own requirements. Further

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calls will be forthcoming only on dates when our own commitments fall due with the result that the loss of interest has been reduced to a minimum. The popularity of this loan is further evidenced by the fact that within a few days of its issue the loan went to a premium and today it is quoted at a premium of Re. 1—8—0.

Financial Position.

4. The success of this loan is a sure indication of the confidence which the money market has in the financial strength of the Cochin Government. Our financial position is certainly very strong as the budget figures will disclose. The accounts of 1110 have closed with a small surplus and though the revised estimate for 1111 shows a deficit we have succeeded in preparing the budget of 1112 with a small surplus. It is hoped that when the current year closes the actuals will disclose that the anticipated deficit of the current year will not be as great as the revised estimates indicate. Though the budgetary position of the Cochin Government can be said to be quite strong, the financial position will have to be watched very carefully and controlled very strictly. The fundamental fact in the financial position of the Cochin Government is that its sources of revenue are practically inelastic but the demands on the revenue are expanding every day. If we are not to be landed very soon in financial difficulties, the current expenditure should be kept under very strict control. It would be interesting and instructive to compare the growth of the revenue and the expenditure of the State during the last ten years. The accounts of the year 1110 have been closed and a comparative study of the financial position for the ten years ending 1110 would reveal very interesting features of the situation. In 1100 the total revenue of the State from all sources was Rs. 76.59 lakhs. In 1110 the revenue was Rs. 97.41 lakhs. There has been an increase of Rs. 20.82 lakhs in the revenue during these ten years. What is interesting to note is that this increase has been brought about without any additional taxation worth mentioning. During this period the only additional burden by way of new tax was the levy of income-tax which has yielded about Rs. 2.70 lakhs. The land revenue during this period has remained almost constant. The income from excise which is an indirect source of taxation has really gone down. The sources from which the enhanced revenue has been obtained are chiefly from our share of the customs revenue and from the increased profit on the working of our railway. The State has therefore during

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